KAZAKHSTAN

Table 1	2020
Population, million	18.7
GDP, current US$ billion	159.8
GDP per capita, current US$	8528.4
Upper middle-income poverty rate ($5.5)[a]	4.6
Gini index[a]	27.8
School enrollment, primary (% gross)[b]	104.4
Life expectancy at birth, years[b]	73.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

GDP fell by 2.6 percent in 2020 due to reduced domestic demand and mobility and health safety restrictions brought about by the COVID-19 crisis and the collapse in exports. Inflation moved up driven by higher food prices and tenge depreciation. With employment and incomes negatively affected, the poverty rate increased to 14 percent in 2020. Growth is likely to bounce back in 2021 as disruptions associated with the pandemic dissipate and external demand picks up. The pace of recovery remains vulnerable to the course of the pandemic.

Key conditions and challenges

Since independence in 1991, Kazakhstan has experienced remarkable economic performance. Rapid growth, fueled by structural reforms, tapping of abundant hydrocarbon resources, strong domestic demand, and FDI has helped reduce poverty and transform the country into an upper middle-income economy.

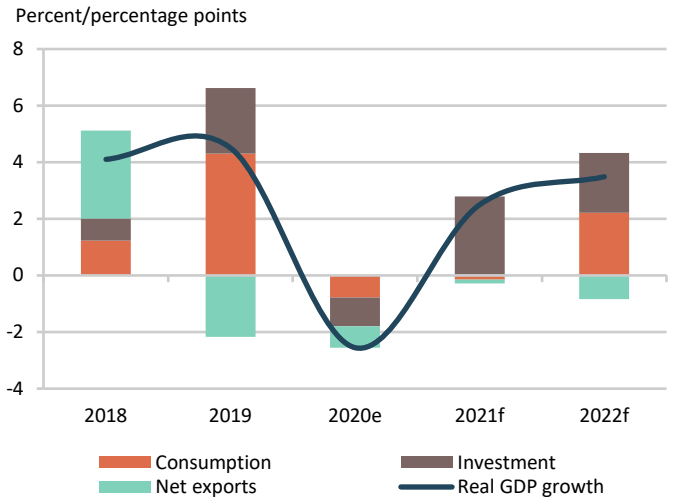
However, productivity growth has weakened, averaging close to zero percent over the past decade, slowing down the pace of economic growth. Over-dependence on hydrocarbons makes the economy vulnerable to external shocks, as nearly 70 percent of country's export earnings comes from crude oil. Half of country's population lives in rural, sparsely populated, and economically isolated areas with poor access to public services and vulnerability to poverty. The COVID-19 pandemic is likely to exacerbate the economic and social vulnerabilities.

To support strong, sustainable, and inclusive economic recovery, the authorities need to advance structural reforms while dealing effectively with the pandemic. The policy imperatives are multifold. The first policy priority is to diversify the economic base by improving competitiveness of the non-oil and gas sectors, including through reforms in the financial sector and investment policies. The second priority is to limit the outsized role of SOEs, enhance competition and create a level playing field for the private sector. The third priority is to improve the quality and progressivity of public spending to address inequality. Finally, it would be essential to strengthen public sector institutions and reinforce the rule of law to attract much-needed investment in the non-extractive sector.

Recent developments

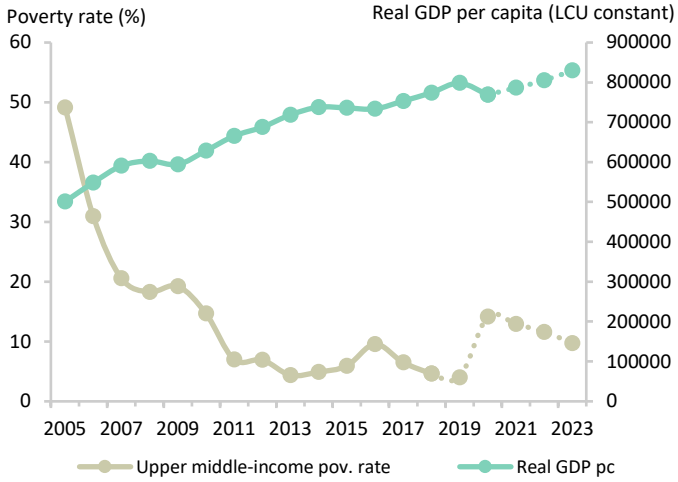
The coronavirus pandemic and the collapse in exports have taken a severe toll on the Kazakh economy. GDP fell for the first time in two decades, down by 2.6 percent in 2020. The nationwide mobility restrictions over COVID-19 led to a contraction in consumer demand and investment. Consumer demand fell 5.0 percent along with a drop in retail trade, while investment dropped by 3.4 percent, largely because of a sharp fall in FDI. Economic activity experienced a severe contraction in April-June of 2020, at the peak of restrictions, followed by a growth rebound in manufacturing, trade and transportation services in the second half of the year. A sharp fall in exports and commensurate reduction in imports left the current account balance broadly unchanged at 3.4 percent of GDP in 2020. NBK reserves rose by almost $6.7 bln. in December to reach $35.6 bln. because of higher gold prices, despite heavy FX market interventions. The tenge fell by 15 percent against the dollar by April 2020 because of the collapse in oil prices but has since regained a third of its losses following the

FIGURE 1 Kazakhstan / Real GDP growth and contribution to real GDP growth



Sources: Statistical Office of Kazakhstan; World Bank staff estimates.

FIGURE 2 Kazakhstan / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Note: see Table 2.

pickup in oil prices and FX interventions by NBK.

The government responded early to the COVID-19 crisis and introduced a fiscal stimulus package in the size of about 6 percent of GDP directed to SMEs and households. As a result, budget spending surged to an estimated 23.2 percent of GDP from a pre-crisis 19.5 percent. To fund the anti-crisis package, the government reallocated existing budgetary funds, tapped into Oil Fund reserves and scaled up domestic borrowing. The budget deficit rose to 4.0 percent of GDP from a 1.8 percent a year earlier, and public debt moved up to 24.4 percent of GDP.

In February 2021, inflation rose to 7.4 percent y-o-y, up from 6.0 percent a year earlier, largely because of 11.6 percent increase in food prices in January. Higher inflation also reflects the impact of the tenge depreciation. Despite higher inflation, the National Bank (NBK) kept its policy rate at 9.0 percent in January 2021.

Despite the crisis, the banking sector recorded a positive return to assets of 2.3 percent, thanks to strong growth in consumer loans, while corporate lending remained subdued. Nonperforming loans (NPLs) remained little changed at 6.8 percent of the loan portfolio in December. Government support measures, such as loan guarantees, moratoria, and subsidized loans helped halt mass corporate insolvencies during the lockdown. However, the true size of NPLs might emerge higher than officially reported after the pandemic, when support measures taper off.

In 2020, the official unemployment rate changed little from a pre-pandemic level. However, the rate of temporary leave, especially among low-income workers, rose sharply during the national lockdowns. As a result, poverty rate is estimated to have increased to 14 percent in 2020.

Outlook

Economic growth is expected to rebound in 2021, driven by resumption of domestic activity, recovery in global demand for oil, continued fiscal support measures, and a successful national inoculation against the COVID-19 virus.

With the continued pace of recovery, the economy is expected to grow within 3.0-4.0 percent range in 2021.

Private consumption spending is likely to pick up in 2021, driven by the release of pent-up demand as incomes rebound and retail lending continue apace. Higher demand for housing is expected to support residential investment, as government program would allow pensioners to use some their savings to purchase a house or pay down mortgages.

The government is likely to continue an expansionary fiscal stance in 2021 due to rising spending on social assistance, education, and infrastructure. The nonoil deficit is projected to decline to nearly 9.0 percent of GDP in 2021 but remain above the mid-term target of 6 percent. Government debt is likely to increase to 27 percent of GDP due to higher domestic borrowing and disbursement of external loans to finance the deficit.

Inflation is expected to moderate in 2021, as supply disruptions and the crisis precautionary food buying wane. However, an expansionary fiscal stance with significant direct lending provisions can sustain pressure on inflation.

The current account deficit is projected to improve modestly, supported by stronger exports thanks to higher oil prices and rebound in global demand for oil and a gradual pick up in imports.

Despite growth recovery, poverty rate is expected to decrease gradually before reaching to a pre-crisis level of welfare.

However, economic recovery could lose momentum if the progress on vaccination slows, mobility restrictions last longer, public investments delayed, and external demand is weaker than expected. Business insolvencies and layoffs could hit incomes, increase poverty, and expose the banking sector to higher NPLs.

TABLE 2 Kazakhstan / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.1	4.5	-2.6	3.2	3.5	4.3
Private Consumption	5.3	5.8	-5.0	4.2	3.4	3.7
Government Consumption	-14.0	15.5	14.2	-0.3	1.4	1.4
Gross Fixed Capital Investment	4.6	11.9	-3.4	3.5	3.5	4.0
Exports, Goods and Services	11.5	2.2	-2.6	2.5	3.1	4.0
Imports, Goods and Services	3.2	11.6	-2.3	4.7	3.1	3.5
Real GDP growth, at constant factor prices	4.1	4.5	-2.5	3.4	3.4	4.3
Agriculture	3.2	0.9	2.6	2.4	2.6	2.6
Industry	4.1	3.8	-1.5	2.9	3.3	5.0
Services	4.2	5.3	-3.7	3.8	3.6	4.1
Inflation (Consumer Price Index)	6.2	5.3	6.8	6.2	5.4	5.0
Current Account Balance (% of GDP)	0.0	-3.6	-3.4	-2.4	-1.1	1.1
Net Foreign Direct Investment (% of GDP)	2.8	3.2	2.2	2.5	4.9	4.5
Fiscal Balance (% of GDP)	-1.1	-1.5	-4.0	-3.8	-1.8	-1.6
Debt (% of GDP)	20.7	19.8	24.4	26.8	27.1	27.1
Primary Balance (% of GDP)	-0.2	-0.5	-3.0	-3.0	-0.8	-0.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	4.6	4.0	14.2	12.9	11.6	9.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2018-HBS.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.